DECISION MEMORANDUM

TO: COMMISSIONER KEMPTON
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL

DATE: SEPTEMBER 30, 2010

SUBJECT: CASE NO. PAC-E-10-09 (PacifiCorp dba Rocky Mountain Power)
AMENDMENTS TO REVISED PROTOCOL ALLOCATION METHODOLOGY

On September 15, 2010, PacifiCorp dba Rocky Mountain Power (PacifiCorp; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of amendments to the Revised Protocol allocation methodology previously approved by the Commission in Order No. 29708, Case No. PAC-E-02-3.

BACKGROUND – REVISED PROTOCOL

PacifiCorp is an electrical corporation and public utility in Idaho and provides retail electric service to more than 1.7 million customers in Idaho and five other western states. PacifiCorp owns substantial generation and transmission facilities. Augmented with wholesale power purchases and long-term transmission contracts, these facilities operate as a single system on an integrated basis to provide service to all customers in a cost-effective manner. PacifiCorp recovers costs of owning and operating its generation and transmission system in retail prices established from time to time in state regulatory proceedings.

Because all of the Company's generation and transmission resources are deemed to be used to serve the Company's customers in all of its state jurisdictions, the Company contends it is necessary to determine what portion of the costs associated with each of the rate-based resources ought to be allocated to customers in the state for which prices are being established. If different state commissions make different decisions regarding what resources should be deemed to be in PacifiCorp's rate base or if different state commissions adopt different policies for allocating the costs of resources among states, the Company may not be afforded the opportunity to recover its full cost of providing electric service.

Each of PacifiCorp's state regulatory commissions has the ability to pursue policies that it believes are in the public interest in its state. It is also important, however, the Company contends, for PacifiCorp to be able to make business decisions in an environment where differing state policies do not result in denying the Company a reasonable opportunity to recover its prudently incurred costs. This, the Company states, would create a disincentive for PacifiCorp to invest in its system.

On March 5, 2002, PacifiCorp petitioned the Idaho Public Utilities Commission to initiate an investigation of inter-jurisdictional issues affecting the Company as a consequence of its status as a multi-jurisdictional utility subject to the jurisdiction of six state regulatory Commissions.

As a result of different cost allocation methods adopted for ratemaking purposes in the Company's various states of operation, PacifiCorp maintained that it was no longer being provided the opportunity to fully recover its costs. By Order No. 28978, the Commission established a docket for investigation, established an intervention deadline and approved a joint Multi-State Process (MSP) for analyzing PacifiCorp inter-jurisdictional issues (*Idaho Code* § 61-505) and established initial MSP scheduling (*Idaho Code* § 61-501).

On September 30, 2003, PacifiCorp filed a Motion, direct testimony and exhibits seeking Commission ratification of an Inter-jurisdictional Cost Allocation Method – Protocol (Protocol). On July 14, 2004, PacifiCorp filed a Revised Protocol and Supplemental Testimony. On November 4, 2004, PacifiCorp and Commission Staff filed a Joint Motion requesting acceptance and Commission approval of a Stipulation and Agreement (Stipulation) negotiated by PacifiCorp, Staff, Monsanto Company, and AARP as full settlement of the inter-jurisdictional cost allocation issues affecting PacifiCorp. Reference IDAPA 31.01.01.272-276. The Revised Protocol was approved by the Idaho Public Utilities Commission on February 28, 2005. (Order No. 29708, Case No. PAC-E-02-3).

Section XIII.B of the Revised Protocol establishes a Standing Committee for continued dialogue among the states. While not abridging the integrity of Commission decision-making processes within each respective state, the Standing Committee:

- Monitors and discusses inter-jurisdictional allocation issues facing PacifiCorp and its customers;

- Helps to organize and direct work group analysis of inter-jurisdictional allocation issues;

- Ensures work group analysis is supported by sound technical analysis;

- Shares views on possible amendments to the Revised Protocol, as they may arise;

- Seeks consensual resolution of issues arising under the Revised Protocol;

- Ensures wide dissemination of information regarding Standing Committee meeting locations and dates and information relating to its activities;

- Ensures and encourages open participation in Standing Committee meetings by all interested persons; and,

- Appoints a Standing Neutral to facilitate discussions among the states, to monitor issues and to assist the Standing Committee.

APPLICATION – 2010 PROTOCOL

Since the approval of the Revised Protocol, interested parties in Utah raised concerns that the continued use of the Revised Protocol may result in a Utah-allocated revenue requirement that is higher when compared to a revenue requirement allocated using the Rolled-In methodology that was anticipated by the Public Service Commission of Utah when it originally adopted the Revised Protocol. The Standing Committee and workgroups have been collaborating since September 2009, to come up with potential solutions acceptable to all parties in the context of the Revised Protocol allocation methodology, including the performance of various studies by the Company at the request of the Standing Committee.

In July 2010, the Standing Committee reached an agreement in principle to amend the Revised Protocol allocation methodology; such agreement to be known as the "2010 Protocol" and provided by the Company as Exhibit No. 1 to the direct testimony of Ms. Andrea L. Kelly. The 2010 Protocol describes how the costs and wholesale revenues associated with PacifiCorp's generation, transmission and distribution system will be assigned or allocated among its six-state jurisdictions for purposes of establishing its retail rates. If adopted, the 2010 Protocol will remain in effect for Company filings made through 2016. The amendments are intended to allow for greater movement to a Rolled-In allocation methodology, while retaining a Hydro Endowment for the former Pacific Power & Light states of Oregon, California, Washington and part of Wyoming.

The 2010 Protocol continues to identify state resources based on cost responsibility and regional resources for the Hydro Endowment calculation. Besides using a Rolled-In allocation methodology as the starting point, a significant change relates to the Embedded Cost Differential (ECD). The scope of the ECD has been reduced and limited, using a comparison of embedded costs based on resources in place on the Company's system prior to 2005. The ECD calculation has been based on projected pre-2005 resource costs and the value allocated to each state is fixed and levelized over the term of the 2010 Protocol. For the duration of the 2010 Protocol a fixed dollar amount per year deviation would be applied to each state's revenue requirement under the Rolled-In allocation methodology. The deviation is composed of two parts; a situs adjustment associated with the surcharge imposed under the Klamath Hydroelectric Settlement Agreement to Oregon and California with a corresponding credit to the other states, and the fixed levelized ECD.

As reflected in the 2010 Protocol, the assignment of a particular expense or investment, or allocation of a share of an expense or investment, to a state pursuant to the 2010 Protocol is not intended, and should not, prejudge the prudence of those costs. Nothing in 2010 Protocol shall abridge any state's right and/or obligation to establish fair, just and reasonable rates based upon the law of that state and record established in rate proceedings conducted by that state. Parties who have supported the ratification of the 2010 Protocol do so in the belief that it will continue to achieve a solution to multi-state issues that is in the public interest. However, a party support of the 2010 Protocol is not intended in a manner to negate the necessary flexibility of the regulatory process to deal with changed or unforeseen circumstances, any party support of the 2010 Protocol will not bind or be used against that party in the event that unforeseen or changed circumstances caused that party to conclude, in good faith, that 2010 Protocol no longer produces results that are just, reasonable and in the public interest.

The requested amendments in the Revised Protocol allocation methodology, the Company contends, result in a consistent and fair cost allocation method that assures the

Company a reasonable opportunity to recover all of its prudently-incurred costs and supports further system investment. Adoption of the changes, the Company contends, are just, reasonable and in the public interest.

Rocky Mountain Power requests that the Commission complete its review and issue an Order with respect to its Application no later than March 31, 2011.

COMMISSION DECISION

PacifiCorp has submitted for Commission approval proposed amendments to the Revised Protocol inter-jurisdictional allocation methodology (2010 Protocol). Staff recommends that the Commission issue a Notice of Application and establish an intervention deadline. Does the Commission agree with the recommended procedure?

Scott Woodbury
Deputy Attorney General

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